

REPORT NO. 647

Creation of a full duty rebate facility on warp knit fabrics (including those made on galloon knitting machines) excluding those of headings 60.01 to 60.04, of synthetic fibres, dyed or printed, laminated with another fabric that is either knitted or woven, of a mass exceeding 410 g/m² but not exceeding 450 g/m² and having a width exceeding 120 cm but not exceeding 150 cm, classifiable in tariff heading 6005.3, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit for use in the manufacture of upholstered furniture classifiable in tariff heading 94.01

The International Trade Administration Commission of South Africa ("ITAC") herewith presents its Report No. 647: Creation of a full duty rebate facility on warp knit fabrics (including those made on galloon knitting machines) (excluding those of headings 60.01 to 60.04), of synthetic fibres, dyed or printed, laminated with another fabric that is either knitted or woven, of a mass exceeding 410 g/m² but not exceeding 450 g/m² and having a width exceeding 120 cm but not exceeding 150 cm, classifiable in tariff heading 6005.3, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit for use in the manufacture of upholstered furniture classifiable in tariff heading 94.01


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CHIEF COMMISSIONER

PRETORIA
.....28/01/2021

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 647

Creation of a full duty rebate facility on warp knit fabrics (including those made on galloon knitting machines) (excluding those of headings 60.01 to 60.04), of synthetic fibres, dyed or printed, laminated with another fabric that is either knitted or woven, of a mass exceeding 410 g/m² but not exceeding 450 g/m² and having a width exceeding 120 cm but not exceeding 150 cm, classifiable in tariff heading 6005.3, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit for use in the manufacture of upholstered furniture classifiable in tariff heading 94.01

Synopsis

The Commission considered an application by Bravo Group Manufacturing (Pty) Ltd, (the "Applicant" or "Bravo Group"), for the creation of a rebate facility on warp knit fabrics classifiable under tariff heading 60.05 for use in the manufacture of upholstered furniture classifiable in tariff headings 9401.61 and 9401.71.

During its deliberations and in arriving at its recommendation, the Commission considered the information at its disposal, including comments received during the investigation period.

The Commission found that:

- There is currently no local manufacturer of the subject product in the Southern African Customs Union ("SACU"). Standerton Mills has submitted that they no longer manufacture similar warp knit fabrics locally.
- The furniture industry's core challenges include, *inter alia*, high input costs as well as increased furniture imports from the East.
- It is envisaged that should the rebate facility concerned be created that it be made subject to an ITAC permit with specific Guidelines, Rules and Conditions, as to allow ITAC to monitor the use and limit possible abuse of the provision.

The Commission decided to recommend that a rebate facility be created to enable the domestic furniture industry to eliminate unnecessary cost rising pressures and increase production of upholstered furniture.

In light of the foregoing, the Commission decided to approve the application for the creation of rebate provision by way of inclusion of: "Warp knit fabrics (including those made on galloon knitting machines) (excluding those of heading 60.01 to 60.04), of synthetic fibres, dyed or printed, laminated with another fabric that is either knitted or woven, of a mass exceeding 410 g/m² but not exceeding 450 g/m² and having a width exceeding 120 cm but not exceeding 150 cm, classifiable in tariff heading 6005.3, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit for use in the manufacture of upholstered furniture classifiable in tariff heading 94.01", to the existing rebate item 320.01.

1. APPLICATION AND TARIFF POSITION

- 1.1. Bravo Group Manufacturing (Pty) Ltd (the "Applicant" or "Bravo Group") applied for the creation of a rebate facility on warp knit fabrics classifiable under tariff heading 60.05 for use in the manufacture of upholstered furniture classifiable in tariff subheadings 9401.61 and 9401.71.
- 1.2. The Bravo Group consists of two business divisions, namely Bravo Group Lounge and Bravo Group Sleep Products. In this regard, the Applicant is Bravo Group Lounge, a Division of the Bravo Group. Bravo Group Lounge is further divided according to its main brand divisions including Alpine Lounge and La-Z Boy, Grafton Everest and Destiny Seating and Gommagomma.
- 1.3 The Bravo Group is a well-established furniture brand in South Africa with its roots dating back to 1895, when the Transvaal Mattress and Furniture Company was founded. The Applicant has since developed to become the most extensive furniture manufacturer in the Southern hemisphere. The Applicant manufactures a wide range of furniture pieces in three factories around the country located in Cape Town, Durban

Applicant has since developed to become the most extensive furniture manufacturer in the Southern hemisphere. The Applicant manufactures a wide range of furniture pieces in three factories around the country located in Cape Town, Durban and Isithebe. The Applicant's products are distributed nationally and to several countries in Africa and the United Kingdom.

1.4 As reasons for the application, Bravo Group stated, *inter alia*, that:

- *The furniture manufacturing industry faces increasing input costs in the manufacture of lounge furniture, which exceeds the rise in the Consumer Price Index ("CPI"), which makes it challenging for the industry to manufacture on a sustainable basis.*
- *The input subject material is currently not manufactured domestically and thus the possible relief of the input cost will enable the industry to maintain and grow employment and remain competitive in the SACU industry, competing amongst other with imported products from the East.*

1.5 The application was published in the Government Gazette on 21 August 2020, for interested parties to comment.

1.6 The current tariff structure for warp knit fabrics is shown in Table 1 below:

Table 1: Tariff structure of subject product – Input material

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of Duty				
				General	EU	EFTA	SADC	MERCOSUR
60.05		Warp knit fabrics (including those made on galloon knitting machines) (excluding those of heading 60.01 to 60.04):						
6005.3		- Of synthetic fibers:						
6005.35		-- Fabrics specified in Subheading Note 1 to this Chapter:						
6005.35.90		--- Other	Kg	22%	13.2%	10%	Free	22%
6005.36		-- Other, unbleached or bleached:						
6005.36.90		--- Other	Kg	22%	13.2%	10%	Free	22%

1.7 Table 1 above shows that warp knit fabric products are classifiable under tariff subheading 6005.3. The subject products currently attract a 22 per cent *ad valorem* duty under the General and MERCOSUR column headings, a 13.2 per cent *ad valorem* duty under the European Union ("EU") column heading and a 10 per cent *ad valorem* under the EFTA column heading, respectively.

1.8 Table 2 below shows the tariff structure of the final product/s manufactured by the Applicant. The final products are classifiable under tariff subheadings 9401.61 and 9401.71, respectively. Upholstered furniture products classifiable under tariff subheading 9401.61 attract a 20% *ad valorem* duty under the General column heading and an 18% *ad valorem* duty under the MERCOSUR column heading, respectively. Upholstered furniture products classifiable under tariff subheading 9401.71 attract a 20% *ad valorem* duty under the General and EFTA column headings and an 18% *ad valorem* duty under the MERCOSUR column heading, respectively.

Table 2: Tariff structure of final manufactured products

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of Duty				
				General	EU	EFTA	SADC	MERCOSUR
94.01		Seats (excluding those of heading 94.02), whether or not convertible into beds, and parts thereof:						
9401.6		Other seats, with wooden frames:						
9401.61		Upholstered	u	20%	Free	Free	Free	18%
9401.7		Other seats with metal frames:						
9401.71		Upholstered	u	20%	Free	20%	Free	18%

Source: Applicant

1.9 Table 3 below shows the Applicant's request for the creation of a rebate facility, for a rebate of the full customs duty on certain warp knit fabrics, with the following rebate description as provided by the South African Revenue Service ("SARS"):

Table 3: Rebate description

Rebate Item	Tariff sub heading	Description	Extent of Rebate
320.01	6005.3	Warp knit fabrics (including those made on galloon knitting machines) (excluding those of heading 60.01 to 60.04), of synthetic fibres, dyed or printed, laminated with another fabric that is either knitted or woven, of a mass exceeding 410 g/m ² but not exceeding 450 g/m ² and having a width exceeding 120 cm but not exceeding 150 cm, classifiable in tariff heading 6005.3, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit for use in the manufacture of upholstered furniture classifiable in tariff heading 94.01.	Full duty

Source: SARS

2. DISCUSSION

- 2.1. The products under investigation are warp knit fabrics that are used as a main input material in the manufacture of certain upholstered furniture products.
- 2.2. The end products are lounge suites upholstered in leather, Polyurethane ("PU"), Polyvinyl Chloride ("PVC") or fabrics. End products are made to order and are therefore directly reliant on consumer demand.
- 2.3. According to information at the Commission's disposal, warp knitting belongs to a family of knitting methods in which the yarn zigzags along the length of the fabric. Warp knitting represents the fastest method of producing fabric from a single yarn. Fabric is produced in a sheet or flat form using one or more sets of warp yarn.
- 2.4. Figure 1 below shows the position of the subject product in the value chain of manufacturing upholstered furniture:

Figure 1: Value chain for the manufacturing of upholstered furniture



Source: Adapted from Applicant

- 2.5. According to current information at the Commission's disposal, there is presently no local manufacturer of the subject product in the Southern African Customs Union ("SACU"). In this regard, a local textile manufacturer, Standerton Mills (Pty) Ltd has submitted that they no longer manufacture similar warp knit fabrics locally.
- 2.6. Reciprocal commitments made by the Applicant for the proposed tariff amendment were provided, particularly with respect to investment and employment creation, which is consistent with the New Growth Path ("NGP"). The Applicant submitted its reciprocal commitments for Alpine Lounge and Grafton Everest, independently.
- 2.7. The Applicant submitted that should the application be supported by the Commission, it expects Alpine Lounge to increase its supply-side investments and Grafton Everest to increase production volumes as well as employment levels, over the period 2021 to 2023.
- 2.8. Comments in support of the application were received from, *inter alia*, the Textile Federation ("Texfed"), Glodina Towellings (Pty) Ltd, DesleeMattex (Pty) Ltd, the South African Clothing and Textiles Workers Union ("SACTWU") and Svenmill (Pty) Ltd.

3. FINDINGS

3.1. The Commission found that:

- There is currently no local manufacturer of the subject product in the SACU. Standerton Mills has submitted that they no longer manufacture similar warp knit fabrics locally.
- The furniture industry's core challenges include, *inter alia*, high input costs as well as increased furniture imports from the East.
- It is envisaged that should the rebate facility concerned be created that it be made subject to an ITAC permit with specific Guidelines, Rules and Conditions, as to allow ITAC to monitor the use and limit possible abuse of the provision.

- 3.2. The Commission decided to recommend that a rebate facility be created to enable the domestic furniture industry to eliminate unnecessary cost rising pressures and increase production of upholstered furniture.

4. RECOMMENDATION

- 4.1. In the light of the foregoing, the Commission decided to approve the application for the creation of a rebate provision by way of inclusion of: "Warp knit fabrics (including those made on galloon knitting machines) (excluding those of heading 60.01 to 60.04), of synthetic fibres, dyed or printed, laminated with another fabric that is either knitted or woven, of a mass exceeding 410 g/m² but not exceeding 450 g/m² and having a width exceeding 120 cm but not exceeding 150 cm, classifiable in tariff heading 6005.3, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit for use in the manufacture of upholstered furniture classifiable in tariff heading 94.01", to the existing rebate item 320.01.